

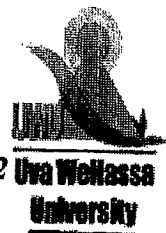
Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

THIRD YEAR SECOND SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2012

EMG 305 -2 Financial Risk Management I



Part C- Essay Questions

Answer **only three (03)** questions including question No.1

Marks allocation: 50 Marks

01. i. The Risk Management Process consists with series of steps and if you follow these steps sequentially, the continual improvement in decision-making can be viewed.

Briefly explain the steps of risk management process. (10 Marks)

ii. Risk cannot be managed unless it is identified in advance. Once the context of the business has been defined, the next step is to utilize the information to identify as many risks as possible.

- a) Differentiate the "Retrospective risk" and "Prospective risk" with suitable examples.
- b) How can you identify retrospective risks and prospective risks within business environment?

(10 Marks)

(Total Marks 20)

02. i. Define the term "risk"?

(3 Marks)

ii. "The market price of bonds is inversely related to the market interest rates". Explain.

(4 Marks)

iii. An investor has analyzed a share for a one-year holding period. The share is currently selling at Rs.43 but dividends are not paid and there is a fifty-fifty chance that the share will sell either for Rs.55 or Rs.60 by the end of the year. What is the expected return and risk if 250 shares are acquired with 80 percent borrowed funds? Assume the cost of borrowed funds is to be 12 percent. (Ignore commissions and taxes).

(8 Marks)

(Total Marks 15)